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UNITED STATES GOVERNMENT

MEMORANDUM

Date : June 16, 1993

Reply to  
Attn of : John R. Winston  
Director, OSBA

Subject : SBAC Public Hearing Record

To : Donna Searcy  
Secretary

DOCKET FILE COPY ORIGINAL

The enclosed documents were received by the Small Business Advisory Committee (SBAC) during its recent May 27, 1993 quarterly meeting and public hearing. They are being forwarded to your office for official inclusion in the public record. In all cases these documents are in reference to FCC General Docket # 90-314 (PCS) and General Docket # 92-51 (Broadcast Capital Formation). All documents are clearly marked as to the referenced Docket #.

If you have any questions or require additional information, please contact me on 632-1571.

Remarks by Joann Anderson, Ph.D. before the  
Federal Communications Commission  
Small Business Advisory Committee

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May 27, 1993

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I appreciate the opportunity to address The Small Business Advisory Committee (SBAC). National Telecommunications and Information Administration (NTIA) and the Federal Communications Commission (FCC) have worked cooperatively for many years. As Director of the Minority Telecommunications Development Program (MTDP), our research and activities focus on minorities. However, there are often commonalities between small businesses and minority businesses. I've been asked to tell you about two of our projects because they may be helpful to the committee as you grapple with very important issues especially PCS, capital, changes in the tax certificate and the radio rules.

It is recognized in many quarters that lack of access to capital is the biggest impediment to small business development. It is an impediment to establishing new businesses. It prevents established businesses from growing. The importance of this issue is reinforced by the amount of activity in Congress to try to stimulate small and minority business investment.

We at the Department of Commerce (DOC) are also addressing the issue of capital formation. NTIA has joined with MBDA to take a fresh look at capital strategies minorities in telecommunications businesses use, and the financial problems they encounter. Our goal is to come up with models for new

We are doing the research for TELECAP through a contract. We have assembled a good team that is a mixture of academics and finance professionals. We are still collecting data, but there are one or two things I can share with you now.

TELECAP will include case studies of minority telecommunication firms. Their businesses include broadcast, engineering, cellular telephones and cable programming. They are in various stages of development and growth. We are looking at the capital strategies they used, the capital problems they faced, and the ways in which they solved those problems. The one thing that is clear, even at this stage, is that minorities frequently do not use traditional sources of capital. The most frequent source of start up capital is family savings and friends. That capital strategy will not move many minorities into the new telecommunications prospects on the horizon.

The centerpiece of TELECAP will be models to pool new sources of capital. We are working on a debt model and an equity model because both are necessary for long term growth. Debt, the money a business is able to borrow, is a little easier to get than equity. Equity represents the entrepreneur's investment. Lenders often see this as the measure of risk owners are willing to commit to their venture. We expect the TELECAP report to be ready early Fall and we will be calling on several of you on the committee to review our findings.

I'd also like to share some data from our report on Minority Broadcast Ownership, a survey we have conducted for the last three years. As I said earlier, these data may be useful to you. They represent an established industry in which minorities got a late start. They represent an industry where many owners learned their businesses as employees, and it reflects an industry where the FCC enforced equal employment requirements. First let me say NTIA did not produce this report alone. The FCC does not track ownership by race, but we had input from many people and organizations including the FCC, National Black Media Coalition, National Association of Black-Owned Broadcasters, BROADCASTAP and American Hispanic Owners of Radio Association, to name just a few.

Between 1990 and 1992, the levels of ownership remained fairly stable, a little below 3% of all stations. The data for 1992 actually showed a slight increase (five stations) from 1991, but that represented a slight percentage decrease from 2.9% to 2.8%. In numerical terms, minority ownership went from 303 to 308 stations. These numbers, however, do not show the churn in ownership. 1992 was a bad year in broadcasting, by some estimates, 62% of radio stations lost money, so while minorities actually gained 26 stations, they lost 21 through sale, transfer or business failure. While blacks are the minority group with

the highest ownership, they lost the most stations. Last year they lost 13 stations and gained only 10.

One of the more interesting things we looked at for the first time last year, was how the stations were acquired. We only have information from the stations that participated in our 92 survey. Of the stations owned by minorities in 1992, 70% were acquired by purchase. The majority of those purchases, 81%, were AM stations, the weakest and cheapest service.

Only 30 % of the stations were acquired through the FCC's comparative licensing procedures. These proportions were very similar when we analyzed acquisitions by racial groups.

The availability of capital goes hand in hand with the ability of small entrepreneurs and minorities to remain in broadcasting and to forge ahead into the new technologies. We commend the SBAC and the staff for tackling some of the tough issues. We will continue to share information on our activities with you. If the committee or members of the audience wish a copy of the ownership report you may contact my office.